

Message Text

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R 171841Z JAN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4871
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAG: ECON,EFIN, GW
SUB: FINANCIAL DEVELOPMENTS
(WEEK ENDING JANUARY 16)

REF: BONN 474, BONN 70 AND BONN 21366 (1977)

1. ESSEN ECONOMIC INSTITUTE CRITICIZES BUNDESBANK'S
MONETARY POLICY
LATEST BUSINESS LETTER OF THE RHEIN-WESTPHALIA INSTITUTE
FOR ECONOMIC RESEARCH ESSEN TAKES ISSUE WITH THE RECENT
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DECISION OF THE BUNDESBANK TO EXPAND CENTRAL BANK MONEY
BY EIGHT PERCENT IN 1978 FOR THE FORTH YEAR IN A ROW.
INSTITUTE ARGUES THAT BUNDESBANK IS LETTING MONETARY
POLICY BE DETERMINED BY PAST SHORTCOMINGS IN THE
ECONOMY RATHER THAN TRYING TO GIVE DIRECTION TO ITS
FUTURE DEVELOPMENT. MONETARY EXPANSION IN EXCESS OF
EXPECTED INFLATION (3 1/2 PERCENT) PLUS PRODUCTIVE

POTENTIAL (3 PERCENT) CONTINUES TO PROVIDE A LARGER
CUSHION OF LIQUIDITY WHICH WILL HAVE FUTURE INFLATIONARY

CONSEQUENCES. ESSEN INSTITUTE SAYS MONEY SUPPLY EXPANSION
SHOULD BE MODERATED IN LINE WITH SLOWING RATE OF
INFLATION, NOT HELD CONSTANT IN AN EFFORT TO STIMULATE
THE ECONOMY SINCE THAT WILL ONLY GIVE RISE TO HIGHER
WAGE SETTLEMENTS.

2. FINANCE MINISTER APEL AGAINST ANY NEW EXPANSIONARY
PROGRAMS:

FINANCE MINISTER HANS APEL TOLD A FURNITURE EXHIBIT
AUDIENCE IN COLOGNE ON JANUARY 16 THAT THE FRG HAD DONE
WHAT IT COULD FOR ECONOMIC EXPANSION IN 1978 AND THAT
HE WAS OPPOSED TO ANY NEW STIMULATIVE MEASURES. APEL
CLAIMED, ACCORDING TO PRESS REPORTS, THAT HIGH UNEMPLOY-
MENT WAS A STRUCTURAL PROBLEM WHICH COULD ONLY BE EASED
THROUGH APPROPRIATE TRAINING PROGRAMS. HE ARGUED
THAT LACK OF CONFIDENCE WAS HOLDING BACK AN ECONOMIC
UPSWING AND WARNED AGAINST IMPATIENCE.

3. FRG REAL GNP UP ONLY 2.4 PERCENT IN 1977:
THE FEDERAL STATISTICAL OFFICE HAS PUBLISHED PRELIMINARY

ESTIMATES OF FRG GNP IN 1977, PLACING REAL GROWTH LAST
YEAR AT 2.4 PERCENT, AS OPPOSED TO THE 5 PERCENT OFFICIAL
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FRG TARGET FOR 1977 AND THE 5.7 PERCENT REAL GAIN
REGISTERED IN 1976. ACCORDING TO SEMI-ANNUAL DATA, YEAR-
OVER-YEAR REAL GROWTH, WHICH HAD DECLINED FROM 6.1
PERCENT IN THE FIRST HALF 1976 TO 2.9 PERCENT IN THE
FIRST HALF OF 1977, DROPPED TO 2.0 PERCENT IN THE SECOND
HALF OF 1977. THE FOLLOWING TABLE, BASED ON PRESS ACCOUN-
TS, SHOWS THE DEVELOPMENT OF THE VARIOUS COMPONENTS OF
GNP IN TERMS OF ANNUAL CHANGES IN PERCENT. VALUE AND
VOLUME FIGURES WILL BE REPORTED AS PUBLISHED.

FRG GNP, 1976-1977

ESTIMATES OF THE FEDERAL STATISTICAL OFFICE
PERCENT CHANGE FROM PREVIOUS YEAR 1

1976 1977

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CONSTANT - 1979 -PRICES

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PRIVATE CONSUMPTION	3.6	2.9
GOVERNMENT CONSUMPTION	2.4	1.0
FIXED INVESTMENT	5.0	2.8
(EQUIPMENT)	(7.2)	(4.6)
(CONSTRUCTION)	(3.7)	(1.6)
CHANGE IN INVENTORIES (BILL.DM)	9.4	9.7
NET FOREIGN BALANCE (BILL.DM)	25.0	24.6
EXPORTS	11.1	4.6
IMPORTS	10.6	5.4
GNP	5.7	2.4
CURRENT PRICES		

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PRIVATE CONSUMPTION 8.2 6.9

GOVERNMENT CONSUMPTION	5.8	5.8
FIXED INVESTMENT	8.5	6.5
CHANGE IN INVENTORIES (BILL.DM)	13.4	12.7
NET FOREIGN BALANCE (BILL.DM)	28.1	25.7
EXPORTS	14.1	6.2
IMPORTS	16.3	7.7
GNP	9.1	6.1

DEFLATORS

GNP	3.2	3.6
CONSUMPTION	4.4	3.9

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1 UNLESS INDICATED OTHERWISE

4. BUNDESBANK DM REVALUATION LOSS:

AT THE END OF 1977 THE BUNDESBANK ADJUSTED THE VALUE OF ITS FOREIGN ASSETS AND LIABILITIES DOWNWARD. THE VALUATION OF GOLD HOLDINGS REMAINED UNCHANGED AT DM 119.70 PER OUNCE. THE ADJUSTMENT BECAME NECESSARY BECAUSE OF THE 12 PERCENT APPRECIATION OF THE DEUTSCHEMARK AGAINST THE DOLLAR DURING 1977. THE NEW VALUATION PRODUCED A DM 7.9 BILLION BOOK LOSS FOR THE BUNDESBANK. THE BUNDESBANK EXPECTS, HOWEVER, THAT 1977 PROFITS FROM NORMAL TRANSACTIONS WILL REDUCE THE LOSS TO ABOUT DM 3.6 BILLION, WHICH WILL THEN BE CARRIED FORWARD INTO 1978. ADDED TO THE 1976 REVALUATION LOSS OF DM 3.0 BILLION, THE TOTAL LOSS TO BE CARRIED FORWARD INTO 1978 WILL AMOUNT TO ABOUT DM 6.6 BILLION.

AT THE END OF 1977 COMPARED WITH THE END OF 1976 THE
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COMPONENTS OF THE BUNDESBANK'S NET FOREIGN POSITION
(AT THEIR NEW VALUATION) WERE AS FOLLOWS:

DECEMBER 31		
1976	1977	CHANGE
---	---	-----
(DM BILLION)		

A) MONETARY RESERVES

GOLD	14.0	14.1	0.1
IMF POSITION	5.9	5.6	-0.3
SDR HOLDINGS	4.8	3.0	-1.8
FOREIGN EXCHANGE	52.0	56.6	4.6
CLAIMS ON EUROPEAN MONETARY FUND	--	1.7	1.7

FOREIGN LIABILITIES	2.8	2.0	-0.8
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TOTAL	73.9	79.0	5.1

B) CREDITS AND OTHER CLAIMS ON

FOREIGN COUNTRIES	11.8	9.3	-2.5
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C) NET FOREIGN POSITION

(A PLUS B)	85.8	88.3	2.5
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5. FRANKFURT MOST EXPENSIVE:

FRANKFURT, HUB OF GERMANY'S FINANCIAL COMMUNITY, WAS
 DETERMINED TO BE THE MOST EXPENSIVE CITY OF MORE THAN
 60 SURVEYED FOR THE TRAVELING BUSINESSMAN. CONDUCTED

BY LONDON'S "FINANCIAL TIMES" NEWSPAPER AND PICKED UP IMMEDIATELY IN THE GERMAN PRESS, RESULTS OF THE SURVEY PLACE FRANKFURT AT AN INDEX OF 160 ON A SCALE WITH LONDON AT 100. THE ANALYSIS SURVEYED EXPENDITURES ON UNCLASSIFIED

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A HOTEL ROOM, FOOD, DRINK AND TAXI FARES FOR THREE NIGHTS IN A FIRST-CLASS HOTEL. GENEVA CLOCKED IN AT 88.

6. DM 16 BILLION PUBLIC INVESTMENT PROGRAM MAKES HEADWAY:

ACCORDING TO THE ECONOMICS MINISTRY, THE DM 16 BILLION FOUR-YEAR PUBLIC SECTOR INVESTMENT PROGRAM IS PROGRESSING MORE RAPIDLY THAN PREVIOUSLY ANTICIPATED. THE PROJECTS SO FAR APPROVED UNDER THE PROGRAM, ACCORDING TO THE MINISTRY, ADD UP TO A VOLUME OF INVESTMENT OF DM 12 BILLION. ORDER PLACEMENTS BY THE END OF 1977 TOTALED SOME DM 4.5 BILLION, VERSUS THE DM 3.5-4.0 BILLION ORIGINALLY ANTICIPATED FOR THE YEAR. SOME 75 PERCENT OF SUCH ORDERS WENT TO THE AILING CONSTRUCTION INDUSTRY. FOR 1978, THE MINISTRY NOW EXPECTS ADDITIONAL ORDER PLACEMENTS TOTALING SOME DM 6.5 BILLION.

7. FOREIGN EXCHANGE MARKET (JAN. 10-17):

AFTER PASSING THROUGH SEVERAL DAYS OF NERVOUS TRADING, COINCIDENT WITH A 3.5 PFENNIG SWING IN ITS VALUE, THE DOLLAR FIRMED AT THE END OF LAST WEEK AND HAS TRADED IN NARROWER MARGINS SINCE. FOR THE REPORTING PERIOD FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FRANKFURT DOLLAR/DM RATES

SPOT DOLLARS	FORWARD DOLLARS
(IN DM PER \$1.00)	(IN PCT. PER ANNUM)

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OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
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JAN 10	2.1430	2.1427	2.1340	-4.9	-4.6
JAN 11	2.1115	2.1155	2.1145	-4.3	-4.5

JAN 12	2.0850	2.1065	2.1035	-4.5	-4.7
JAN 13	2.1268	2.1318	2.1190	-5.0	-4.7
JAN 16	2.1240	2.1220	2.1200	-4.9	-4.6
JAN 17	2.1330	2.1320	N.A.	N.A.	N.A.

8. MONEY MARKET:

MONEY MARKET RATES IN THE FRG EASED SLIGHTLY DURING THE PERIOD. FOR THE PERIOD JANUARY 10-16, FRANKFURT INTERBANK RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
	-----	-----	-----
JAN 10	3.30-3.40	3.55	3.60
JAN 11	3.35-3.45	3.55	3.60
JAN 12	3.30-3.40	3.53	3.55
JAN 13	3.20-3.30	3.53	3.55
JAN 16	3.10-3.25	3.45	3.53

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SOE-02 IGA-02 /134 W
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R 171856Z JAN 78
FM AMEMBASSY BONN
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9. REDUCTION IN INTEREST RATES ON SAVINGS DEPOSITS:
THE ASSOCIATION OF GERMAN SAVINGS BANKS HAS RECOMMENDED
THAT ITS MEMBERS "ADJUST" INTEREST RATES ON SAVINGS
DEPOSITS TO MARKET CONDITIONS PREVAILING SINCE THE
DECEMBER 16 HALF PERCENT REDUCTION IN THE BUNDESBANK'S
REDISCOUNT AND LOMBARD RATES. SOME LARGE SAVINGS BANKS
HAD ALREADY REDUCED INTEREST RATES PRIOR TO THE SAVINGS
BANKS ASSOCIATION RECOMMENDATION (SEE BONN 70). THE
ASSOCIATION OF COOPERATIVE BANKS, ON THE OTHER HAND,
ADVISED MEMBER BANKS TO EXAMINE WHETHER, AT LEAST FOR
SOME TIME, INTEREST RATES ON SAVINGS DEPOSITS COULD BE
HELD AT THE CURRENT LEVEL. THE BIG THREE COMMERCIAL
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BANKS, DEUTSCHE, DRESDNER AND COMMERZBANK, HAVE NOT
YET REDUCED INTEREST RATES ON SAVINGS.

10. RATIFICATION OF IMF ARTICLES:
THE LAW AUTHORIZING GERMAN RATIFICATION OF THE AMEND-
MENTS TO THE IMF ARTICLES WAS SIGNED BY THE FEDERAL
PRESIDENT ON JANUARY 9. TEXT APPEARS IN JANUARY 12
EDITION OF BUNDESGESETZBLATT.

11. BUNDESBANK FOREIGN POSITION:
IN THE PERIOD DECEMBER 24-31 THE BUNDESBANK'S NET
FOREIGN POSITION INCREASED BY DM 0.6 BILLION (EXCLUDING
THE DM 7.9 BILLION DECREASE IN THIS POSITION DUE TO THE
NEW VALUATION - SEE PARAGRAPH 4 ABOVE). A BREAKDOWN
OF THE INCREASE BY INDIVIDUAL COMPONENTS OF THE BUNDES-
BANK'S FOREIGN POSITION IS NOT POSSIBLE SINCE THE
BUNDESBANK DECEMBER 31 BALANCE SHEET COMBINES CHANGES
RESULTING FROM THE NEW VALUATION AND FROM NORMAL
FOREIGN TRANSACTIONS.

IN THE PERIOD JANUARY 1-7 THE BUNDESBANK'S NET FOREIGN
POSITION INCREASED FURTHER BY DM 0.4 BILLION TO DM 88.7
BILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 702
MILLION AND FOREIGN LIABILITIES BY ABOUT DM 260 MILLION.
SDR HOLDINGS DECLINED BY DM 43 MILLION.

12. BANK LIQUIDITY:
DEVELOPMENTS IN BANK LIQUIDITY AT THE TURN OF THE YEAR
REFLECTED WINDOW-DRESSING OPERATIONS OF BANKS. THE
BASIC FACTOR, CAUSING THE DM 5.5 BILLION DECLINE IN
BANK LIQUIDITY IN THE PERIOD DECEMBER 24-31, WAS A
SUBSTANTIAL DM 11.7 BILLION INCREASE IN THE BANKS'

HOLDINGS OF RESERVES AT THE BUNDESBANK REFLECTING THE
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BANKS' EFFORTS TO IMPROVE THEIR LIQUIDITY STATUS IN
YEAR-END BALANCE SHEETS. A DM 0.2 BILLION INCREASE IN
CURRENCY IN CIRCULATION AND OTHER, UNIDENTIFIED FACTORS
(DM 0.7 BILLION, NET) FURTHER REDUCED LIQUIDITY.

THE MAJOR FACTOR INCREASING LIQUIDITY WERE END-OF-MONTH
PAYMENTS OF PUBLIC AUTHORITIES. THESE PAYMENTS REDUCED
BUNDESBANK ASSETS OF THE FEDERAL GOVERNMENT BY DM 0.6
BILLION TO DM 0.3 BILLION AND FORCED THE GOVERNMENT TO
BORROW AN ADDITIONAL DM 0.8 BILLION FROM THE BUNDESBANK.
ASSETS OF THE STATE GOVERNMENTS DECLINED BY DM 5.0
BILLION AND, IN ADDITION, TWO STATE GOVERNMENTS HAD TO
BORROW DM 0.1 BILLION AT THE BUNDESBANK. AT THE
END OF THE YEAR THE FEDERAL GOVERNMENT HAD BORROWED,
NET, DM 0.3 BILLION FROM THE BUNDESBANK WHILE STATE
GOVERNMENTS HELD NET ASSETS OF DM 1.5 BILLION.
ANOTHER FACTOR INCREASING LIQUIDITY WAS THE ABOVE-

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MENTIONED DM 0.6 BILLION INCREASE IN THE BUNDESBANK'S
NET FOREIGN POSITION.

THE BANKS FINANCED THE DECLINE IN LIQUIDITY BY IN-
CREASING LOMBARD BORROWINGS BY DM 5.2 BILLION AND
REDISCOUNT BORROWINGS BY DM 0.3 BILLION. AT THE END
OF 1977 THE BANKS' CENTRAL BANK INDEBTEDNESS AMOUNTED
TO DM 19.6 BILLION (REDISCOUNT BORROWINGS: DM 14.0
BILLION; LOMBARD BORROWINGS: DM 5.6 BILLION), ALMOST
EXACTLY THE SAME AMOUNT OUTSTANDING AT THE END OF 1976
(DM 19.5 BILLION).

DURING THE PERIOD JANUARY 1-7 LIQUIDITY INCREASED BY
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DM 3.4 BILLION BASICALLY REFLECTING A PARTIAL UNWINDING
OF THE BANKS' YEAR-END POSITIONS. THE BANKS' RESERVES
HELD AT THE BUNDESBANK DECLINED BY DM 4.4 BILLION.
OTHER FACTORS INCREASING LIQUIDITY WERE THE ABOVE-
MENTIONED DM 0.4 BILLION INCREASE IN THE BUNDESBANK'S
NET FOREIGN POSITION AND A DM 0.2 BILLION DECLINE IN
CURRENCY IN CIRCULATION. FACTORS REDUCING LIQUIDITY
WERE A DM 0.5 BILLION REPAYMENT BY THE FEDERAL GOVERN-
MENT OF ITS CREDIT TAKEN UP AT THE BUNDESBANK, AND A
DM 0.4 BILLION INCREASE IN OFFICIAL ASSETS HELD AT
THE BUNDESBANK. OTHER FACTORS, NET, REDUCED LIQUIDITY
BY DM 0.7 BILLION.

THE BANKS USED THE INCREASE IN LIQUIDITY TO REPAY
LOMBARD BORROWINGS BY DM 5.3 BILLION TO DM 0.3 BILLION.
AT THE SAME TIME THEY INCREASED REDISCOUNT BORROWINGS
BY DM 1.9 BILLION.

13. BOND MARKET:
ON THE MARKET FOR DOMESTIC BONDS PRICE DECLINES WHICH
PREVAILED AFTER THE MID-DECEMBER REDUCTION IN REDIS-
COUNT AND LOMBARD RATES SLOWED DOWN. ACCORDING TO THE
PRESS, AVERAGE CURRENT YIELDS OF OUTSTANDING DOMESTIC
BONDS BROKEN DOWN BY REMAINING MATURITY WERE AS FOLLOWS:

REMAINING
MATURITY

(YEARS) 1 3 5 7 9 10

JANUARY 13 3.95 4.80 5.30 5.65 6.00 6.05

JANUARY 6 3.95 4.85 5.30 5.75 6.05 6.10

ON JANUARY 16 THE FEDERAL RAILWAYS OFFERED A DM 850
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MILLION LOAN CARRYING A COUPON OF 6 PERCENT, AN ISSUE
PRICE OF 100 AND A MATURITY OF 12 YEARS. THESE
CONDITIONS ARE SOMEWHAT MORE FAVORABLE FOR THE BORROWER
AS THOSE OF THE LONGER-TERM TRANCHE OF THE FEDERAL
GOVERNMENT LOAN OFFERED AT THE TURN OF THE YEAR (SEE
BONN 21366 OF DECEMBER 27, 1977). THIS TRANCHE ALSO
CARRIED A 6 PERCENT COUPON BUT AN ISSUE PRICE OF 99.75
AND A MATURITY OF 10 YEARS ONLY. ACCORDING TO THE
FINANCIAL PRESS, THE LOAN IS IN GOOD DEMAND, AND IS
CURRENTLY TRADED AMONG BANKS AT A PRICE OF 100.30 TO
100.50

FOREIGN DM BONDS:

THE DM 150 MILLION LOAN OF THE BANQUE FRANCAISE DU
COMMERCE EXTERIEUR (BFCE - SEE BONN 474) WILL BE OFFERED
AT A COUPON OF 5 3/4 PERCENT, AN ISSUE PRICE OF 99 3/4
AND A MATURITY OF 10 YEARS WITH REPAYMENT THROUGH A
SINKING FUND BEGINNING AFTER 8 YEARS. FURTHER
BORROWERS WILL BE THE IBRD (DM 500 MILLION, COUPON
PROBABLY 5 3/4 PERCENT, MATURITY 12 YEARS WITH REPAY-
MENT TO BEGIN AFTER 8 YEARS) AND THE GOVERNMENT OF
DENMARK WHICH WILL OFFER A LOAN IN TWO TRANCHES OF
DM 100 MILLION EACH, ONE TRANCHE AT A 5 1/4 PERCENT
COUPON AND A MATURITY OF 6 YEARS AND ANOTHER AT
A COUPON OF PROBABLY 6 PERCENT AND MATURITY OF 10
YEARS. STOESSEL

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Review Withdrawn Fields: n/a
SAS ID: 3765204
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Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY 16)
TAGS: ECON, EFIN, GE
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/3dd6cfe2-c288-dd11-92da-001cc4696bcc
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